

For discussion on
10 June 2019

Legislative Council
Panel on Development and Panel on Home Affairs
Joint Subcommittee to Monitor the Implementation of the
West Kowloon Cultural District Project

Update on the Progress of the ACE Development Package and
the Preparation of the Land Grant for
the West Kowloon Cultural District

This paper briefs Members on the following matters relevant to the implementation of the commercial developments in West Kowloon Cultural District (WKCD) flowing from the Enhanced Financial Arrangement (EFA) for the WKCD:

- (a) progress of the work by the West Kowloon Cultural District Authority (WKCDA) in preparing the Art, Commerce and Exhibitions (ACE) development package; and
- (b) preparation of the land grant (Land Grant) for WKCD.

2. Under the EFA announced on 18 January 2017, the Government would grant the development rights of the Hotel/Office/Residential (HOR) portion of WKCD (involving a maximum of 366 620 square metres gross floor area (GFA) inclusive of those in ACE) at nominal premium, and to allow WKCDA to enter into Build-Operate-Transfer (BOT) and income sharing arrangements with developers so as to provide the WKCDA with a steady source of recurrent income for the operation and management of the Arts and Cultural Facilities (ACF). The BOT contracts will be awarded through open and competitive tenders by WKCDA. Upfront payment (except for the BOT package for ACE) to be determined through the tenders under tender conditions set by WKCDA will be attributable to the Government, and the Government will share income with WKCDA upon expiry of the BOT period.

3. Since then, WKCDA has been actively pushing forward with planning for the development of the HOR within WKCD. The priority is to take forward the development package comprising the Exhibition Centre (EC) and its ancillary facilities, now branded as ACE, to reflect the multi-purpose nature of the EC including meeting demands for arts and cultural facilities. As reported to the Joint Subcommittee to Monitor the Implementation of the WKCD project on 11 June 2018, WKCDA has been working on market engagement, a series of public engagement exercises, development parameters, governance and preparation of the expression of interest document. The progress of the work in preparing the ACE development package is at **Annex A**.

4. In parallel, the Government has been preparing a land grant (Land Grant) to confer upon the WKCDA a land title for the development and operation of WKCD. The Land Grant will ensure and enable the WKCDA to take forward the WKCD development in accordance with the policy intention, including development of the site into an integrated arts and cultural district as well as the implementation of the EFA. On 28 May 2019, the Chief Executive in Council decided to grant the site (about 38.6 hectares) to be known as “Kowloon Inland Lot No. 11260” (Lot) to the WKCDA at nominal premium of \$1,000 and nil administrative fee for a lease term of 50 years subject to the approved basic terms and conditions for the Land Grant of the Lot. The relevant details of the Land Grant are at **Annex B**.

5. WKCDA is now in a position to take the procurement process of the ACE Project forward. At the first stage in the process, invitation will be released to private sector partners in June 2019 for them to submit an expression of interest (EOI) for the ACE Project in August 2019. Depending on the outcome of the EOI exercise, the tender is expected to be issued to shortlisted applicants in Q4 2019. It is estimated that the tender will be awarded in Q3 2020 with a target to complete the ACE development in 2025.

ADVICE SOUGHT

6. Members are invited to note the progress of the ACE development package in WKCD, and the preparation of the Land Grant.

**Home Affairs Bureau
West Kowloon Cultural District Authority
June 2019**

Update on the Progress of the ACE Development Package

Under the Enhanced Financial Arrangement (EFA) for the West Kowloon Cultural District (WKCD) announced on 18 January 2017, the Government would grant the development rights of the hotel/office/residential (HOR) portion of WKCD (involving a maximum of 366 620 square metres (sqm) gross floor area (GFA)) to the West Kowloon Cultural District Authority (WKCDA). Among this HOR GFA, a maximum of 81 066 sqm GFA of hotel and office sites are earmarked for joint development with the Exhibition Centre (EC) and which, alongside the land for the EC, is granted to WKCDA at nominal premium without the need for WKCDA to pay an upfront payment to the Government. Noting the multi-purpose nature of the EC including meeting demands for arts and cultural facilities, the EC development is now more appropriately branded as the Art, Commerce and Exhibitions (ACE) Project. WKCDA has been seeking private sector partners to deliver the ACE Project through a Build-Operate-Transfer (BOT) and income sharing arrangement.

2. On 9 February 2018, WKCDA briefed the Joint Subcommittee to Monitor the Implementation of the WKCD project (Joint Subcommittee) on the development strategy of the ACE Project (LC Paper No. CB(1)559/17-18(01)). The key components of the development package, including the public and market engagement plans, implementation strategy, procurement model, and tendering process were provided for Members' information.

3. On 11 June 2018, WKCDA updated the Joint Subcommittee on the progress of the ACE Project, including the development parameters and tentative timelines for the development (LC Paper No. CB(1)1066/17-18(04)). Members were also briefed on the market engagement feedback and that potential private sector partners had expressed interest in participating in the project. As reported before, WKCDA briefed the Consultation Panel on 4 May 2018 and other relevant bodies including Travel Industry Council, Task Force on Harbourfront Developments in Kowloon, Tsuen Wan and Kwai Tsing of the Harbourfront Commission and Yau Tsim Mong District Council. A series of public engagement

exercises, including media briefing, roving exhibitions, etc., was also conducted to update the general public on the planning of the ACE Project.

4. A map showing the location of the ACE Project is attached at **Annex C**.

PROGRESS OF THE ACE DEVELOPMENT PACKAGE

5. WKCDA has been pushing forward with planning for the development of the HOR within WKCD. The priority is to take forward the ACE Project. The ACE Project comprises an EC of 47 045 sqm GFA with hotel and rental offices (total GFA of 81 066 sqm) and embedded Retail, Dining and Entertainment (RDE) facilities (GFA of 6 894 sqm) in the adjacent U-shaped site.

6. The ACE Project will be located within a vibrant downtown art district, addressing a growing demand for space from art fairs, exhibition and convention organisers which are known to have difficulty securing space to allow them to enter into or expand in Hong Kong. EC would provide a platform to support cultural and creative industries in particular major art-themed events such as art fairs and art exhibitions which have to face keen competition with other hirers for existing exhibition spaces.

7. WKCDA will adopt open and competitive tendering in selecting a private sector partner to deliver the BOT for the ACE Project.

8. The procurement process of the ACE Project involves two stages: a prequalification process, by way of an expression of interest (EOI) and a tender stage. The pre-qualification applicants will be evaluated against several criteria including vision and strategy; financial and commercial; development capability and capacity; operating capability and capacity; and Private Public Partnership (PPP)/BOT experience. Shortlisted applicants will be invited to tender. In Q2 2019, the private sector will be invited to submit EOIs for the ACE Project as the first stage in the process.

9. The ACE Project will be developed under a BOT

arrangement to capture market capability and opportunities in design, construction and management. The BOT period for the ACE Project will include a development phase which the WKCDA expects to be no longer than 5 years and an operation phase of at least 30 years.

10. WKCDA shall not be allowed to sell any part of the land or premises in WKCD to any third party, in line with the terms of the EFA. This single lease approach will ensure that WKCD will be developed in a holistic and integrated manner to complement the overall organic growth of WKCD and the phased commissioning of the arts and cultural facilities. Upon the expiry of the BOT period, the private sector partners will be required to hand back the premises to WKCDA.

11. Depending on the outcome of the EOI exercise, the tender would be issued to shortlisted applicants in Q4 2019. Tenderers will compete on, among other requirements, the level of income generated from the operation of ACE to be shared with WKCDA. WKCDA will retain the right to cancel the tender if the income to be shared with WKCDA offered by tenderers is unreasonably low (i.e. lower than the pre-tender full market value (FMV) based on the tender conditions undertaken by an independent valuation). It is estimated that the tender will be awarded in Q3 2020 with a target to complete the ACE development in 2025.

OBJECTIVES, REQUIREMENTS AND OUTCOMES OF THE ACE PROJECT

12. Key objectives in the formulation of the approach to take forward the ACE Project include:

(a) to procure the ACE Project as a single development by harnessing the expertise of relevant private developer and operators;

(b) to develop the EC as an arts and cultural facility in accordance with the Development Plan and the required outcomes while achieving the highest and best use site optimization to deliver maximum commercial value to the WKCDA;

(c) to generate a financial return to the WKCDA as a contribution to the overall financing of the WKCD through an income sharing arrangement;

(d) to achieve optimal risk allocation whereby appropriate risks and rewards are shared between the private sector partners and WKCDA; and

(e) to integrate with other arts and cultural areas within the WKCD having full regard to the WKCD-wide planning themes and design principles.

13. The key requirements of the ACE Project will be set out in the EOI and will include the following specifications:

(a) The EC will provide a multi-purpose venue that will bring a distinct and unique facility that can complement other Hong Kong venues, and host major exhibitions and suitable arts and cultural performances. The main hall shall be able to accommodate various types of performances for a seating capacity of around 10 000 persons in concert mode, which will be column free and meet suitable acoustic standard up to Noise Criterion (NC) 35.

(b) Hong Kong is estimated to have a shortage in the supply of suitable exhibition spaces over the next 10 to 20 years, and the EC will have the opportunity to capture the demand for existing and new local/international events as well as to facilitate the holding of more arts and cultural related meetings and conferences.

(c) The hotel will benefit from the demand created by the EC, and other facilities in the WKCD and represents a unique harbour side development opportunity. There are also opportunities to make use of the operating synergies between the hotel and the EC to maximise commercial outcomes by attracting functions and events as well as providing facilities such as meeting rooms, banquet facilities, etc. The hotel will support the ACE Project for a wide range of Meetings, Incentive Travels, Conventions and Exhibitions (MICE) opportunities. It is expected to be

at least High Tariff B quality with a minimum GFA in aggregate of 21 000 sqm.

(d) The rental office is expected to be of Grade-A quality. Key uses of RDE facilities may encompass branded mid and upper-mid market café/restaurants, grab-and-go outlets, as well as tourist-oriented or themed retail spaces.

14. The ACE Project is expected to deliver the following outcomes:

(a) for the EC to consistently attract premium international events and receive industry recognition as one of the leading world-class multi-purpose exhibition and event spaces in Asia;

(b) to provide for the unmet demand for existing and new exhibition and event space in Hong Kong;

(c) to capture the demand for event space (including for artistic and cultural events) at peak periods in Hong Kong, which is expected to require approximately 132 500 sqm of additional space by 2028¹;

(d) to provide a flexible venue that can, whilst meeting other needs, raise the number of events in Hong Kong related to arts, culture and creative industries by covering a wide range of fairs and auctions in one space and complement the needs of the WKCD as a whole; and

(e) to provide hotel accommodation in support of, and easily accessible from, the EC as well as RDE and new office space, to create a vibrant “24/7” locale for residence, working and playing.

¹ Quoted from the 2014 Demand Study for New Convention and Exhibition Facilities in Hong Kong published by AMR International

GOVERNANCE

15. WKCDA has established a Public Private Partnership Projects Committee (PPP Committee) to oversee and monitor PPP (including BOT) projects undertaken in West Kowloon.

16. The PPP Committee is responsible for independent oversight of the procurement process, approving the EOI and tender documents once approval to proceed has been granted by the WKCDA Board. The PPP Committee is also responsible for reviewing the final EOI assessment reports and tender assessment reports prepared by the Tender Assessment Team and recommending the EOI shortlists and preferred tenderer to the WKCDA Board.

17. To ensure that a robust governance framework and procedures are in place for the procurement of PPP Projects, WKCDA has developed a set of Procurement Guidelines for Public Private Partnership Projects (the Guidelines) to establish a consistent process and governance structure for each PPP project.

18. The Guidelines are intended to apply to a development package covering the whole process from WKCDA's decision to proceed with procurement using a PPP model to contract award and financial close. Procurement under the Guidelines shall be fair and competitive; be transparent and consistently applied; identify and manage any conflicts of interest, whether perceived, actual or potential on the part of the tender assessment team members; maintain confidentiality of information; and be thoroughly documented.

**West Kowloon Cultural District Authority
June 2019**

**Preparation of the Land Grant for the
West Kowloon Cultural District**

PREPARATION APPROACH

In preparing the Land Grant, the Government has taken into account four unique features of the West Kowloon Cultural District (WKCD) development.

2. First, as the definition, scope and manifestations of “arts and culture” evolves over time, any description of land uses rooted in arts and culture prepared now could never be exhaustive and definitive. In this context, the Land Grant will stipulate a broader permitted use of “non-industrial (excluding godown or petrol filling station) purposes”. The Board of the West Kowloon Cultural District Authority (WKCDA) will be tasked with determining the arts and cultural uses in WKCD. The WKCDA Board, which is formed under the WKCDA Ordinance (Chapter 601), is well-positioned to do so given that the Board comprises, amongst others, members with extensive knowledge of, or wide experience in or exposure to, arts and cultural activities.

3. Second, stakeholders and the community in general support the organic growth of the WKCD project, and given its mega scale, the WKCD development would span over a long period of time and might require fine-tuning to cope with circumstance changes and community’s need.

4. Third, WKCD development covers a wide range of Arts and Cultural Facilities (ACF), Hotel/Office/Residential (HOR) uses and Public Open Space (POS) which are intended to be integrated vertically and horizontally under the WKCD concept plan. All these different land uses may also be subject to different modes of development, operation and management. The Art, Commerce and Exhibitions (ACE) project and HOR projects will be delivered and operated by private sector partners under different Build-Operate-Transfer (BOT) contracts. While most of the major ACF (Xiqu Centre, M+ building, Hong Kong Palace Museum, etc.) and open space will be delivered and operated by WKCDA, selected ACF (such as

the Musical Theatre) may in future be delivered and operated through Public-Private Partnership (PPP) Projects with private sector partners.

5. Fourth, WKCDA shall not be allowed to sell any part of the land or premises in WKCD to any third party, in line with the terms of the Enhanced Financial Arrangement (EFA) for WKCD. This single lease approach will ensure that WKCD will be developed in a holistic and integrated manner to complement the overall organic growth of WKCD and the phased commissioning of ACF. Upon the expiry of the BOT period, the private sector partners will be required to hand back the premises to WKCDA.

6. With the above considerations, certain controls relating to the development of land (e.g. the provision of ACF and the sublease of part(s) of the lot by WKCDA), which are normally set out in the Land Grant, will be made non-specific to facilitate implementation by WKCDA taking into account the evolving and progressive development of arts and culture and the WKCD. To complement the Land Grant, significant obligations are set out in a “Memorandum about the Development of the WKCD” (Memorandum), with clauses in relation to ACF, Government, institution or community (GIC) facilities, POS, parking/loading/unloading spaces, restriction of alienation, requirement of upfront payment to the Government and income sharing with the Government upon the expiry of the BOT terms.

7. This Memorandum will be linked to the re-entry clause in the Land Grant to empower the Government to re-enter and take possession of the lot if WKCDA fails to comply with the requirements. Together with the Land Grant, the Memorandum will be deposited in the Land Registry. The Memorandum replicates terms in the Project Agreement to be entered between the Government and the WKCDA which have policy and public interest significance, while the Project Agreement will contain other commercially sensitive terms relating to BOT/PPP projects which are not appropriate to be disclosed. The salient features of the Land Grant and the Memorandum are outlined in paragraphs 9 to 19 below.

8. The Government will finalise the Land Grant and the Memorandum with WKCDA which will be executed

concurrently before WKCDA awards the BOT contract for the ACE project to the developer.

SALIENT FEATURES OF THE LAND GRANT AND MEMORANDUM

Provision of ACF

9. The Land Grant will stipulate the total maximum GFA of 848 000 m² in the WKCD lot, the GFA for HOR will be capped at 366 620 m² to ensure that property developments would not take up a major portion of the WKCD project. The minimum GFA requirement of 337 000 m² for the ACF, of which a minimum of 255 000 m² of GFA shall be provided within ten years from the execution of the Land Grant, will be included in the Memorandum, which also stipulates that the development programme of the remaining GFA for ACF and the major facilities (**Annex C**), shall be reviewed from time to time and, if necessary, amended as agreed with the Government.

Restriction of Alienation of the WKCD Lot

10. To cater for the requirements of different BOT (for HOR) or PPP (for ACF) projects and modes of operation and management for various facilities, there is a need in the Land Grant to allow WKCDA to grant sub-leases to their private sector partners, and to provide for mortgaging or charging the sublease interests. The Land Grant will stipulate the maximum duration of tenancies/licences for office units in HOR of WKCD to be the residual sublease term less the last 3 days, and the maximum licence term of hotel rooms to be 12 months and the maximum tenancy term of residential units to be 10 years.

11. The Memorandum will include controls on the duration of any sublease, further sub-leasing and mortgaging/charging the sub-lease interest, which would normally be imposed by the Land Grant. The WKCDA Board will apply these controls flexibly on a case-by-case basis while adhering to the overriding principle that there shall be no alienation of the WKCD lot by WKCDA.

Upfront Payment to the Government

12. In accordance with the EFA, except for the BOT contract for ACE, the Government would receive upfront payment from the BOT contracts for HOR developments. The upfront Payments payable to the Government by the BOT developer shall be determined through open and competitive tender upon conditions of tender set by WKCDA. WKCDA shall retain the right to cancel the tender if the upfront payment for HOR developments is unreasonably low vis-à-vis the pre-determined Full Market Value (FMV). It is WKCDA's plan to undertake this pre-determined FMV by an independent valuation.

13. The Memorandum will stipulate that the requirement for the upfront payment from the HOR developer (except for the BOT project for ACE) shall be payable to the Government, and the restriction against WKCDA requiring or receiving any other upfront payment from such developer.

Income Sharing Arrangement upon Expiry of BOT Contract

14. The Memorandum will specify that after the expiry of any BOT contract for the ACE or any HOR facility, the WKCDA shall share the income generated from the ACE or the relevant HOR facility in accordance with an income sharing proposal to be made by WKCDA and approved by the Chief Executive in Council.

15. Separately, in considering the WKCDA's income sharing proposal, the Government plans to take into account all relevant circumstances including WKCDA's need for sufficient funds to meet the costs and expenses of the management, operation and maintenance of the WKCD, capital and recurrent funding requirements, the overall amount of outstanding loans/bond financing and their repayment terms, and working capital and cash reserve level requirements.

Provision of POS

16. Of the total 21.68 hectares (ha) of POS ¹ to be provided in the WKCD lot, the Land Grant will stipulate that 12 ha and 16 ha shall be provided respectively within 5 and 10 years from the execution date of the Land Grant. The timing of the provision of the remaining 5.98 ha shall tally with the completion of developments with POS is located within or adjacent to the development. To balance the public expectation for free accessibility to and the need for WKCD to hold thereon a wide range of arts, cultural or related events/activities, so as to bring vibrancy to the WKCD, the Memorandum will restrict the licence term for any one event requiring tickets/paid for admission, to no more than six months, and for exceptional events requiring a longer licence term, approval from the WKCD Board or Board sub-committee is required.

Provision of GIC Facilities

17. The requirement for WKCD to provide not less than 1% of the total GFA of the WKCD for GIC uses, whether existing and/or planned uses, in compliance with the requirements of the Approved WKCD Development Plan and the Planning Approval will be stipulated in the Memorandum. The provision of GIC facilities shall be subject to review by the Government and WKCD from time to time and shall include any additions, amendments and/or substitutions as the Government may require from time to time.

Requirement for Parking and Loading/Unloading Spaces

18. The Land Grant together with the Memorandum will stipulate the provision rate of parking and loading/unloading spaces for various uses in the WKCD lot. The Memorandum will also stipulate that the WKCD Board or an appropriate committee thereof shall approve the operation arrangement of

¹ The WKCD Development Plan stipulates the provision of a total not less than 23 ha of POS in the planning area for WKCD. However, the WKCD lot under the Land Grant will excise 1.32 ha of seawall falling within the "Open Space" zone of the WKCD Development Plan. As such, the Land Grant will stipulate a total of not less than 21.68 ha of POS only.

the carparks (including the implementation mechanism for the sharing of the parking spaces among various uses) before the concerned car parks commence operation.

Building Covenant (BC) Term

19. The BC clause in a land lease stipulates the time within which the grantee shall complete the development on the land, with the aim of preventing private developer from hoarding the land. In the WKCD case, given its mega scale and organic growth approach, the development would inevitably span over a long period of time. To allow flexibility, the Land Grant will stipulate a BC term of 30 years, without phased BCs.

**Home Affairs Bureau
June 2019**

ACE 和主要文化藝術設施的位置
Location of ACE and Major Arts and Cultural Facilities

